Fact Sheet INVESTMENTS

California Public Employees' Retirement System • 400 Q Street • Sacramento, California 95814

CalPERS Healthcare Investment Initiative

The Healthcare Crisis

CalPERS is the nation's third largest purchaser of health benefits, with annual spending of $5 billion on behalf of 1.2 million enrollees. A decade ago, CalPERS led the managed care revolution with four years of premium declines. But market dynamics have changed. The cost spiral has resumed, and prices in the U.S. healthcare market are rising faster than ever.

- Healthcare spending has played a disproportionately large role in U.S. economic expansion since 2000.
- GDP growth ranged from 3-7% per year from 2000-05.
- Health premium increases in the same period ranged between 8-14%.
- In recent years, the CalPERS Health Benefits Program has saved hundreds of millions of dollars by innovations – but on the margins.
- Costs continue to rise as aging enrollees seek more services from an inefficient healthcare system with systemic structural flaws.
- The healthcare industry is characterized by complex science, suboptimal incentives, a fragmented provider base, an increasing uninsured population, and a high degree of regulation.

CalPERS Healthcare Investments

CalPERS has invested billions of dollars in the U.S. healthcare sector, mainly as a shareowner in public equity index funds with scores of pharmaceutical, hospital, and other healthcare companies.

- CalPERS has another $1.7 billion in more than 800 private equity portfolio companies.
- Returns in the private equity healthcare sector are twice what was invested.
- Over the past 10 years, healthcare private equity funds have generated a 17 percent net return to outperform the "all-private equity" index by 6 percent over the same period, according to Venture Economics.
- CalPERS has strong relationships with the world's leading general partners that have major stakes in the healthcare industry.

Healthcare Investment Initiative

The CalPERS Investment Office has been working with the Health Benefits Branch; McKinsey & Company, a management and consulting firm; and our AIM Program consultant, Pension Consulting Alliance (PCA), to asses the feasibility of a new healthcare investment program.

- The objective: attractive risk-adjusted returns by leveraging two CalPERS divisions – the Investment Office and the Health Benefits Branch – to make investments in healthcare companies.

- An initial allocation of up to $500 million will be targeted for investments in companies that address the unmet needs and inefficiencies in the delivery of health services.
- Up to $200 million is intended for investment in healthcare focused venture capital and private equity funds which target investments advancing efficiencies in healthcare
- CalPERS is the first pension fund to create an investment initiative focused on efficiency in healthcare.
- After an extensive search, CalPERS named Health Evolution Partners, led by David J. Brailer, M.D., PhD., as the strategic partner to lead the Healthcare Investment Initiative based on the firm's deep knowledge and experience in the key aspects of the business of healthcare – regulation, technological innovation, and delivery improvement opportunities.
- Health Evolution Partners will invest in a portfolio that will be diversified by healthcare industry sub-sector, geography and stage of business development.
- Investments might advance disease management, preventive medicine, health information technology – including electronic medical records and telemedicine – medical devices and equipment, personalized medicine, and pharmaceutical benefits management.

Health Evolution Partners

Health Evolution Partners is the strategic partner that will lead the Healthcare Investment Initiative. The firm is led by Dr. David J. Brailer, a physician, entrepreneur and former National Health Information Technology Coordinator. Health Evolution Partners will drive more efficient and higher quality healthcare by investing in new ways to finance, organize and deliver care. It will invest in diverse healthcare companies, including start-ups, growth stage, turn-arounds, recapitalization and buy-outs that have the potential to deliver value to healthcare consumers and that generate superior financial returns.

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